



Problem Resolution Report

Telephone Handsets
NG/CoSD-009, Revision 1

Date: April 20, 2007

Summary:

In accordance with the provisions of the IT and Telecommunications Service Agreement dated January 24, 2006 ("the Agreement") by and between the County of San Diego ("County") and Northrop Grumman Information Technology, Inc. ("Northrop Grumman" or "Contractor") (hereinafter collectively referred to as "the Parties") agreement is reached on the date shown above.

Issue or Problem:

The Parties wish to provide and establish a price adjustment for Northrop Grumman assuming responsibility for providing telephone handsets as a function of Voice Services.

Resolution:

The County of San Diego and Northrop Grumman have agreed that:

1. The prices for the Voice Jack – Single-Line, Voice Jack – Multi-Line Resource Units are each revised to be as follows to reflect increases of \$0.27 per single line handset and \$0.97 per multi line handset:

Resource Unit	Resource Unit Fee (90% to 110% band)	Baseline Volumes (per Contract Year)	(Resource Unit Fee) x (Baseline Volume)	Bundled Resource Unit	Resource Unit Fee (70% to 80% band)	Resource Unit Fee (80% to 90% band)	Resource Unit Fee (110% to 120% band)	Resource Unit Fee (120% to 130% band)
Voice Jack - Single-Line	\$41.33	95133	\$3,927,090	B2	\$45.66	\$44.57	\$40.84	\$40.40
Voice Jack - Multi-Line	\$43.69	153404	\$6,722,163	B2	\$48.38	\$47.23	\$42.27	\$42.91

2. A detailed analysis of the derivation of this price adjustment is set forth in Attachment 1 to this PRR-009.
3. In consideration of the price adjustment set forth above, Northrop Grumman will deploy telephone handsets corresponding to each type of active Voice Jack, and shall maintain (including replacement as necessary) such telephone handsets.



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NORTHROP GRUMMAN

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The resolution of the issue or Problem as described in this Problem Resolution Report shall govern the Parties' actions under the Agreement until a formal amendment of the Agreement is implemented in accordance with the terms of the Agreement, at which time this Problem Resolution Report shall be deemed superseded and shall be null and void.

All other terms and conditions of the Agreement remain unchanged and the Parties agree that such terms and conditions set forth in the Agreement shall continue to apply. Unless otherwise indicated, the terms used herein shall have the same meaning as those given in the Agreement.

IN WITNESS WHEREOF, The Parties hereto, intending to be legally bound, have executed by their authorized representatives and delivered this Problem Resolution Report as of the date first written above.

COUNTY OF SAN DIEGO

By: Dorothy R. Gardner

Name: Dorothy R. Gardner

Title: Sr. PCO

Date: 6/6/07

NORTHROP GRUMMAN INFORMATION
TECHNOLOGY, INC.

By: Randolph Pabst

Name: RANDOLPH PABST

Title: DIR. CONTRACTS

Date: 6/1/2007

Attachment 1 to PRR-009, Revision 1

Northrop Grumman derived the proposed adjustment in the Voice Jack Resource Unit pricing to cover telephones in the following manner.

The Pennant Alliance contract established a specific dollar amount for sale of PBX and Avaya Services assets, including the installed base of telephones (Schedule 14.3.6 of the Pennant Alliance contract establishing network "recovery charges"). In the summer of 2006, CSC sent the County a letter breaking out the cost of the telephones from the remainder of the PBX and Avaya assets (the amount of the recovery charges attributable to telephones was \$1,446,407). At the County's request, Northrop Grumman confirmed that it had accounted for the total amount of the recovery charges in its pricing.

This means that Northrop Grumman's voice jack pricing included an amount to recover the cost of the County's installed base of telephones. However, the RFP resulting in the Northrop Grumman Agreement anticipated the County would purchase new and replacement telephones from the OIPC catalog, and directed bidders to not price telephone instruments in the voice jack resource units. So, although the voice jack pricing included the amount necessary to cover the acquisition of the installed base of telephones, it did not include the costs of new or replacement telephones.

Prior to the Network Services Cutover, the County and Northrop Grumman realized the originally intended plan of providing telephones from the OIPC would be administratively cumbersome and asked Northrop Grumman to provide the telephones as part of the voice jack resource units.

The proposed price adjustment included in this PRR, therefore, is for only the future costs of new and replacement telephones.

To properly adjust the resource unit pricing, it is necessary to forecast the growth and replacement rates, which determine the total number of new telephones to be deployed. It is also necessary to distinguish new telephones, which result in additional billable resource units, from replacement telephones, which do not.

Northrop Grumman estimates a 10% growth rate for new telephones over the life of the contract, and replacement rates of 16% and 19%, respectively, for single line and multi-line telephones.

To distinguish from growth, which also results in additional voice jack resource units, from replacement, which does not, Northrop Grumman based its pricing analysis on a unit known as "resource unit-months", which reflects the total number of billable resource units multiplied by the total number of months in the contract term. This unit allows the price analysis to distinguish growth (which will increase the number of resource unit-months) from replacement (which will not increase the number of resource unit-months).

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Once resource unit-months were computed for both the installed base of telephones (as of the Network Services Cutover date) and the total contract, including growth and replacement) this figure was used to divide the total telephone costs over the life of the contract, including the installed base purchased from CSC and the cost of new and replacement telephones. This calculation yields a dollar amount per monthly resource unit available to cover all projected telephones.

Similarly, the cost of the installed base of telephones (the \$1,446,407 paid by Northrop Grumman to CSC) was divided by the total resource unit-months for the installed telephones as of the Cutover date (September 1, 2006). Subtracting this amount, which is already included in Northrop Grumman's voice jack pricing, from the total amount required per resource unit to cover all telephones including growth and replacement leaves the dollar amount shown on the attached analysis as "required increase". The required increase for each of single line and multi-line voice jacks is the amount of the proposed adjustment in this PRR.

Analysis for including telephone handsets in voice jack resource unit prices
Northrop Grumman Pricing

Single Line Phones								
	phone units	unit cost	growth/replacement percentage	cost (investment)		billable units	term (months)	resource unit-months
installed single line phones	7957	\$ 60.25	N/A	\$ 479,403.00		7957	76	604732
expected growth	796	\$ 93.50	10%	\$ 74,397.95		796	38	30237
expected replacements	1273	\$ 93.50	16%	\$ 119,036.72		N/A		
	Total Phone Costs			\$ 672,837.67	Total billable resource unit-months		634969	

\$ 1.06 amount needed each month per voice jack to cover projected phone costs
\$ 0.79 monthly amount generated by current voice jack resource unit price
\$ 0.27 required increase
\$ 41.06 current resource unit price
\$ 41.33 new resource unit price

Multi-line Phones								
	phone units	unit cost	growth/replacement percentage	cost (investment)		billable units	term (months)	resource unit-months
Installed multi-line phones	13414	\$ 72.09	N/A	\$ 967,004.00		13414	76	1019464
expected growth	1341	\$ 280.50	10%	\$ 376,262.70		1341	38	50973
expected replacements	2549	\$ 280.50	19%	\$ 714,899.13		N/A		
	Total Phone Costs			\$ 2,058,165.83	Total billable resource unit-months		1070437	

\$ 1.92 amount needed each month per voice jack to cover projected phone costs
\$ 0.95 monthly amount generated by current voice jack resource unit price
\$ 0.97 required increase
\$ 42.72 current resource unit price (after reduction for IVS)
\$ 43.69 new resource unit price

Variables

growth rate - single line	10%
replacement rate - single line	16%
new phone cost	\$ 93.50
growth rate - multi-line	10%
replacement rate - multi-line	19%
new phone cost	\$ 280.50